

Service Date: September 6, 1989

DEPARTMENT OF PUBLIC SERVICE REGULATION
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MONTANA

* * * * *

IN THE MATTER Of The Application)	
Of PACIFIC POWER & LIGHT COMPANY)	UTILITY DIVISION
For Authority To Adopt New Rates)	
and Charges For Electric Service)	DOCKET NO. 87.12.80
In Its Montana Service Area)	
_____)	

ERRATA SHEET

PLEASE MAKE THE FOLLOWING CHANGE:

Change Order Nos. 5326 and 5326a dated March 16, 1988 and October 14, 1988 to:

Order Nos. 5333 and 5333a

Service Date: March 29, 1988

DEPARTMENT OF PUBLIC SERVICE REGULATION
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MONTANA

* * * * *

IN THE MATTER of the Application of)	UTILITY DIVISION
PACIFIC POWER AND LIGHT COMPANY for)	
Authority to Adopt New Rates and)	DOCKET NO. 87.12.80
Charges for Electric Service Fur-)	
nished in the State of Montana.)	INTERIM ORDER NO. 5333
_____)	

FINDINGS OF FACT

1. On December 17, 1987, Pacific Power & Light Company (PP&L, Company or Applicant) filed an application with the Montana Public Service Commission to reflect among other items the following in its Montana electric rates: 1) the Bonneville Power Administration (BPA) rate increase that occurred October 1, 1987; 2) the PP&L deferred tree trimming program; 3) the second phase of the 1986 Tax Reform Act (34 percent tax rate); 4) the change in the Schedule 98 BPA Credit; and 5) the inclusion of Colstrip Unit 4. Testimony and Exhibits filed by the Applicant demonstrated that the above factors taken together with several other proposed adjustments would result in no change in the Company's net rates.

Commission Analysis

Adjustments and Starting Point

2. Mr. Krantz of PP&L testified that the Company's pro forma adjustments are generally consistent with previous Commission orders (PP&L Exh. 6, p. 2). Unless otherwise stated herein, the Commission accepts for interim purposes, the Company's proposed adjustments. Interim acceptance of some of the Company's proposed adjustments does not prejudice the Commission's final decision on any of these matters (including return on equity and overall rate of return).

3. The Company chose to use a 1986 test year adjusted for certain known and measurable changes. One of those known and measurable changes was the 1986 Tax Reform Act (TRA). Under the TRA the federal income tax rate decreased from 46 percent to 40 percent and then

finally to 34 percent. The Company's calculations of the impacts due to the TRA were made after other proposed adjustments and, therefore, were affected by those adjustments. In order to keep the TRA impacts intact, the Commission treated Column 3 of Table 7-5 (PP&L Exh. 7) as the Company's pro forma test year results. That column titled "SUBTOTAL" included all TRA impacts and was deemed by the Commission as the best point from which to make interim adjustments. All adjustments discussed in this Interim Order are made at the current 34 percent federal income tax rate. All Commission adjustments discussed below, therefore, are made to PP&L's allocated Montana pro forma test year revenues, expenses, and rate base found in column 3 of Table 7-5 of Mr. Krantz' Exhibit 7.

Return on Equity and Overall Rate of Return

4. The Company proposed to use the capital structure and related costs approved in Order No. 5311 of Docket No. 86.12.76. This represents a continuation of the return on equity of 12.3 percent approved first in Order No. 5169a of Docket No. 85.10.41 and then stipulated to in Order No. 5311 of Docket No. 86.12.76. The remaining differences between the overall rates of return of the two orders mentioned above relate to updates in costs and ratios. Consistent with usual interim procedures, the Commission finds the use of 9.79 percent overall rate of return, including a return on equity of 12.3 percent, from Order No. 5311 of Docket No. 86.12.76 to be proper in this interim proceeding as the last approved rate of return.

"Tracker" Filing

5. Throughout the testimony and exhibits of PP&L's witnesses in this filing, the word "tracker" is used in reference to certain issues and related costs that are proposed to be reflected in rates on an expedited basis. The Commission interprets the term "tracker" to mean a request for an Interim Order on this filing which reflects rate treatment for matters such as the Federal tax rate, the proposed BPA increase, and the proposed deferred tree trimming adjustment. The Commission also interprets PP&L's "tracker" portion of its filing to exclude all costs associated with Colstrip Unit 4, and that such costs will be the subject of a Final Order in this proceeding. The Commission makes

no judgment on the value of the term "tracker" as its meaning is implied by PP&L, but the Commission strongly emphasizes that filings such as this one in no way resemble gas cost tracker filings quite familiar to the Commission. All issues and matters in this filing will be as thoroughly analyzed, and in the same manner, as those in any previous proceeding of PP&L coming before the Commission on both an interim and final basis. Therefore, the Commission finds it proper to apply its interim rules in this docket in conformance with the Commission's interpretation of the term "tracker" filing.

Federal Tax Rate

6. In Order No. 5311 of Docket No. 86.12.76, the Commission approved a revenue requirements stipulation between PP&L and MCC that utilized a Federal tax rate of 40 percent rather than the level of 34 percent approved in Order No. 5236c in Docket No. 86.11.62. The Commission allowed that tax rate because of the magnitude of the revenue deficiency shown in that proceeding, but the Commission stated, "However, and in order to put PP&L in complete compliance with Order No. 5236c, the Company must file with the Commission so that the effects of moving to a 34 percent tax rate will be in effect no later than January 1, 1988." (Order No. 5311, FOF No. 25)

7. Due to the short time frame since the issuance of Order No. 5311 in Docket No. 86.12.76 in December of 1987, the Company asked for a waiver of the January 1, 1988, effective date for the Federal tax rate and requested an effective date of February 1, 1988. (PP&L Application, pp. 1-2)

8. Based on the short time frame mentioned above, the Commission grants the requested waiver. Actually, the proposed effective date of February 1, 1988, is also unattainable due to the time required for Commission analysis of this filing in order to issue an Interim Order. The Commission also finds that, for interim purposes, this Interim Order adequately reflects the change of the Federal tax rate from 40 percent to 34 percent.

Jurisdictional Allocation Method and Phase-in

9. The Company stated that the jurisdictional allocation method relied upon in its filing is consistent with the new allocation method adopted in PP&L's last rate case, Docket No. 86.12.76. Witness Krantz explained that, in order to provide a smooth transition from the old methodology to the new one, a four year phase-in period would be utilized, and Phase II would be used for 1986 results of operation. PP&L, therefore, proposed to use Phase II of this new allocation note methodology in the current filing, resulting in a Note 1 factor of 3.07 percent, because the proposed test year is twelve months ended December 31, 1986. (PP&L Exh. 6, pp. 3-4)

10. The Commission fully expects this matter to be a major issue in this proceeding, but, for interim purposes, the Commission prefers to take a cautious course. Therefore, the Commission finds the Company's proposed Phase II jurisdictional allocation method to be proper in this interim proceeding.

BPA Rate Increase

11. The Company proposed to include the effects of an increase in Bonneville Power Administration's (BPA) transmission and wholesale power rates, which became effective October 1, 1987. These BPA rate revisions increased Montana's allocated rate base by \$54,000 and decreased net income by \$56,000. (PP&L Exh. 7, Table 7-5, column 4).

12. There is precedent for allowing BPA rate increases to be included in PP&L interim rate orders. In Interim Order No. 5028a of Docket No. 83.10.71, the Commission found that the increased expense due to a BPA rate increase was, to a large extent, a known and measurable change lying beyond the direct control of PP&L (Order No. 5028a, FOF No. 6). For similar reasons, the Commission finds that the reflection of the BPA rate increase effective October 1, 1987, is proper in this interim proceeding resulting in a reduction in revenues of \$32,000, an increase in total expenses of \$24,000, and an increase in rate base of \$54,000.

Deferred Tree Trimming

13. The Company proposed adjustments to increase both expenses and rate base by \$43,000 in association with its deferred tree trimming program. This program was instituted in mid-

1987, when the Commission issued Accounting Order No. 5272. In that Order the Commission specifically stated:

The Commission is willing to grant PP&L's request for an accounting order. This action, however, is not an approval of the accounting procedure proposed by the Company or the length of time such accounting shall be deemed as proper. This approval is for accounting purposes only to allow PP&L to conform, in the Company's opinion, with generally accepted accounting principles. This Order is not to be construed as, nor is it in any way, a directive as to the proper accounting treatment for such carrying charges, or an approval of either the actual numbers involved, the accounting method used, or the assumptions underlying those numbers. Most importantly, this Order does not prejudice in any fashion the treatment of the numbers and accounts involved for any future ratemaking proceeding. (Paragraph No. 6, Order No. 5272)

14. The Commission has not yet had the opportunity to fully examine the possible merits of this program, including the propriety of the proposed accounting treatment of the program. The Commission prefers to defer action on this matter until the Final Order after having had a chance to examine all related testimony and evidence. Therefore, the Commission finds it appropriate for interim purposes to reject the Company's proposed adjustments associated with deferred tree trimming expenses.

Colstrip Unit 4 and Related Deferred Carrying Charges

15. Mr. Watson of PP&L testified, "The Company requests that the Commission authorize the inclusion of the Montana electric assigned and allocated portion of Colstrip 4 including related common facilities and the deferred carrying charges in its Montana electric operations rate base." Mr. Watson indicated that one of the effects of rate base treatment for Colstrip 4 and related charges would be the discontinuance of any further accrual of the deferred carrying charges. He also said that, for rate stabilization purposes, the Company is not proposing to increase rates to offset the additional costs of Colstrip 4. Concerning the accumulated balance of deferred carrying charges, Mr. Watson said that the Company is proposing that the Commission allow amortization of that balance over a 10-year period beginning at the date of the order with the unamortized balance included in

rate base. He said that customers will benefit through lower prices than the Company could otherwise justify, and, as a matter of policy, the Company will not increase its general overall prices to Montana through the end of the current decade. (PP&L Exh. 1, pp. 9-10)

16. The Commission expects this to be a major issue in this rate case. For purposes of this Interim Order, the Commission finds it proper to eliminate all proposed costs related to Colstrip 4, including the deferred carrying costs, on the basis that the costs associated with this large generating unit were not addressed in Order No. 5311 of Docket No. 86.12.76 and that the fate of this issue should be determined in the Final Order in this proceeding after the Commission has considered all related testimony and evidence. This interim treatment of a new, large generating plant being proposed to be included in rate base for the first time is consistent with previous Commission treatment of such matters. The elimination of Colstrip 4 and the related deferred carrying charges in this interim proceeding, therefore, results in a reduction in total expenses of \$45,000 and a reduction in rate base of \$1,382,000.

Colstrip 3 Carrying Charges

17. The Company proposed to include in rates all deferred carrying charges associated with Colstrip Unit 3. PP&L witness Krantz testified, "The balance accumulated from the date the unit was placed in service until this Commission allowed rate base treatment in Order No. 5128 is being amortized over a 5-year period and the unamortized balance is included in rate base." (PP&L Exh. 6, p. 7)

18. The Commission believes this matter will be an important issue during this proceeding. For purposes of this Interim Order, however, the Commission finds it proper to eliminate the proposed Colstrip 3 carrying charges on the basis that these charges were not addressed in Order No. 5311 of Docket No. 86.12.76 and that the fate of this potentially controversial issue should be determined in the Final Order in this proceeding after the Commission has considered all related testimony and evidence. The elimination of Colstrip 3 deferred carrying charges in this interim proceeding, therefore, results in a reduction in amortization expense of \$114,000 and a reduction in rate base of \$514,000.

Depreciation

19. PP&L proposed an adjustment to increase depreciation expense by \$87,000. A \$44,000 rate base reduction was also proposed to reflect the corresponding increase in the Company's depreciation reserve. Both of these proposed adjustments are the result of a new depreciation study performed by the Company. Since these adjustments are due to a new depreciation study which the Commission has not had the opportunity to fully analyze, the adjustments are deemed to be inappropriate for interim purposes. Therefore, the Commission rejects both the \$87,000 depreciation expense adjustment and the corresponding \$44,000 depreciation reserve rate base adjustment proposed by the Company.

Hydroelectric Power Computer Program

20. On page six of Mr. Duvall's testimony, the Northwest Power Pool's hydro system regulation computer program (PNCA Regulator) is discussed. In response to Commission Data Request No. PSC-23, the Company stated that this is the first Montana retail rate case in which the Company has utilized this computer program to calculate hydroelectric power availability for input into the production cost model. Previously, the Company has used the BPA's hydro system regulation computer program to perform this function. The Company stated that its decision to switch hydro regulators was based on recent modifications to the PNCA Regulator which allow it to utilize 50 years of historic stream flow data rather than the 40 years which has been used in the past. The Company believes that the use of additional regulated stream flow data results in a more technically accurate basis upon which to determine net power costs for its system. According to the Company, using this computer program results in increased hydroelectric generation and lower net power costs for PP&L's Montana customers by \$38,000 (allocated). (PP&L Response to Commission Data Request No. PSC-23)

21. The Commission believes that this proposed switch of computer programs for the Company's production cost model is quite likely a beneficial move for PP&L's Montana customers, as evidenced by the aforementioned reduction in net power costs. In light of the fact that this

computer program has never before been utilized in a PP&L rate case, however, the Commission will withhold judgment on the propriety of this proposed change in the production cost model in this Interim Order until the Commission has the benefit of examining all testimony on this matter for the Final Order. The Commission, therefore, finds an decrease of \$21,000 in off-system revenues and an increase of \$17,000 in power costs (purchased power, coal, and wheeling expenses) to reflect the exclusion of the use of the PNCA Regulator from the Company's production cost model to be proper in this interim proceeding.

FASB 87

22. Mr. Watson testified that, in the past, for ratemaking purposes, pension expense was equal to the required annual funding contribution of the Company as determined by its actuary, excluding administrative costs. For ratemaking purposes in the future, exclusive of administrative costs, the Company proposes to continue to treat pension expense as it has done in the past where pension expense would be equal to the funding contribution applicable to each year. Mr. Watson said that FASB Statement 87 runs contrary to the Company's goal of providing stable customer prices through time because of potential volatility and that FASB 87 tends to demonstrate pension expense on a theoretical basis. He said that, for example, the annual funding for 1986 was zero; however, under FASB 87, the 1986 total company expense would have been about \$4,200,000. (PP&L Exh. 1, pp. 10-11)

23. The Commission hesitates to make any determination on this issue in this Interim Order. The proper ratemaking treatment of pension expense will quite possibly be a contested issue in this rate case. This issue should be resolved in the Final Order in this proceeding after the Commission has considered all related testimony and evidence. For purposes of this Interim Order, therefore, the Commission finds it proper to accept PP&L's proposed treatment of pension expense as such treatment is consistent with past Commission orders on this matter.

Net Benefits Analysis

24. Mr. Watson testified that, for purposes of rate stability, the Company is proposing to abandon the Net Benefit Analysis (NBA) adopted by the Commission in Docket No. 84.7.38 and relating to the inclusion of Colstrip Unit 3 in PP&L's rate base and the Black Hills sales contract in rates. Mr. Watson explained that reflecting the NBA in this filing would cause this rate filing to reflect a rate increase in order to pass along the shareholders' portion of the benefit exceeding the \$15 million floor, which was a limit of benefit determined in Docket No. 84.7.38. Mr. Watson felt that price stability would be tougher to maintain if the NBA were to continue. (PP&L Exh. 1, pp. 7-8)

25. The question of whether or not to discontinue the NBA permanently is a matter that should be properly addressed in the Final Order of this proceeding after the Commission has considered all related testimony and evidence. The Commission, therefore, makes no determination concerning the Company's proposed discontinuance of the NBA in this Interim Order.

Pro Forma Interest Expense

26. Pro forma interest must be adjusted to reflect approved changes in the Company's rate base and cost of debt. Based on the approved Interim rate base and the weighted cost of PP&L's long term debt compared to the interest expense adjustment implicit in the pro forma numbers in column 3 of Mr. Krantz' Table 7-5, the Commission finds a \$0 change in Montana Corporation License Tax and a \$0 change in Federal Income Tax to be appropriate for purposes of this Interim Order. Normally, the Commission's interim adjustments will cause the pro forma interest expense to differ from the amount calculated by the Company. With the change in pro forma interest there is usually a corresponding change to both the Montana Corporation License Tax and Federal Income Tax. Based on the findings of this Interim Order, the pro forma interest calculation results in no change to either the Montana Corporation License Tax or Federal Income Tax.

Revenue Requirement

27. Based on the above Findings of Fact, the following table shows that a reduction in PP&L's annual electric revenues in the amount of \$929,000 is necessary in order to provide the opportunity to earn an overall rate of return to 9.79 percent:

PACIFIC POWER & LIGHT COMPANY - Docket No. 87.12.80
INTERIM Revenue Requirements Chart
To Produce 9.79% Rate of Return
Test Year: December 31, 1986
(000)

	PP&L Proposed <u>Pro Forma</u>	Total Accepted <u>Adjustments</u>	Accepted Pro <u>Forma</u>	Decrease For 9.79% <u>Return</u>	Approved Total <u></u>
Operating Revenues	\$34,487	(\$53)	\$34,434	(\$929)	\$33,505
Operating Revenue Deductions					
Operating Expenses	\$19,384	\$77	\$19,461	(\$4)	\$19,457
Depreciation and Amortization	3,205	(201)	3,004		3,004
Taxes Other Than Income	1,061	0	1,061	(3)	1,058
State Income Taxes	428	(7)	421	(62)	359
Federal Income Taxes					
FIT @ 46%	2,011	(34)	1,977	(292)	1,685
ITC @ 85%	<u>(249)</u>	<u>0</u>	<u>(249)</u>	<u></u>	<u>(249)</u>
Net Federal Income Taxes	1,762	(34)	1,728	(292)	1,436
Deferred Income Taxes	635	0	635		635
Income Taxes Deferred, Prior Years	(140)	0	(140)		(140)
Investment Tax Credit Adjustment	<u>225</u>	<u>0</u>	<u>225</u>	<u></u>	<u>225</u>
Total Operating Revenue Deduction	\$26,560	(\$615)	\$26,395	(\$361)	\$26,034
Net Income	<u>\$ 7,927</u>	<u>\$112</u>	<u>\$ 8,039</u>	<u>(\$568)</u>	<u>\$ 7,471</u>
Average Rate Base	<u>\$76,737</u>	<u>(\$416)</u>	<u>\$76,321</u>		<u>\$76,321</u>
Rate of Return	<u>10.33%</u>		<u>10.53%</u>		<u>9.79%</u>

Other Matters

Schedule 98 Credit

28. In its filing, the Company proposes a gross revenue requirement reduction of \$565,000 and a similar reduction of \$565,000 to regional exchange revenues to be recovered from BPA. In explaining this coincidence of numbers resulting in no overall net change in PP&L's prices to its Montana electric customers, the Company explained that when the effect of the regional exchange is included, the \$565,000 gross revenue reduction is decreased to a net reduction of \$120,000 primarily due to the effect of the BPA rate increase. The Company stated that, in order to provide a revenue neutral filing based on the policy decision to maintain rate stability, it is proposing to offset the remaining \$120,000 net rate decrease with a dollar for dollar reduction in regional exchange benefits by adjusting the balancing account in the Schedule 98 credit. The effect is that the Schedule 98 credit is lower than it would have been without this adjustment. (PP&L Response to Commission Data Request PSC-5)

29. The Commission appreciates the Company's efforts to maintain rate stability, but such a proposal as this one would be more properly addressed in the Final Order in this proceeding after the Commission has had a chance to evaluate all related testimony and information. The Commission, therefore, finds that the Company should calculate the Schedule 98 credit emanating from this Interim Order in the same manner that was approved in Order No. 5311 of Docket No. 86.12.76.

Rate Design

30. The Company refers to each class' overall revenue requirement as its "base" revenue requirement. For some classes, such as the Residential Class, revenues come from both the customer, and from BPA in the form of a Schedule 98 exchange credit. The Company refers to revenues that must be obtained from customers, the base revenue requirement less BPA exchange revenues, as the class' "net" revenue requirement.

31. The Company's objective in designing interim rates is to provide the greatest amount of price stability to the largest number of customers. The Company's interim revenue requirement proposals are included in Table B below. The Company's proposed base revenue requirement for each class is followed the change that represents from the current base revenue requirement. Similarly, the Company's proposed net revenue requirement for each class is followed by the change that represents from current net revenue requirement.

Table B: PP&L Interim Rate Design Proposal

<u>Class</u>	<u>Schedule</u>	<u>Base</u>		<u>Net</u>	
		<u>Revs.</u> ((\$000))	<u>Change</u> %	<u>Revs.</u> ((\$000))	<u>Change</u> %
Residential	7	14,122	(5.7)	12,918	0.0
Ltg. Sch.	14	83	(2.3)	78	2.2
Ltg. Sch.	15	71	(2.3)	71	(2.3)
General Serv.	22	9,083	(0.8)	9,083	(0.8)
General Serv.	24	534	(0.8)	487	6.2
Ag. Pumping	36	115	(4.3)	100	0.0
Large GS	48T	5,434	0.0	5,434	0.0
Other		127	0.0	127	0.0

Source: PP&L response to PSC data request.

32. The Company is proposing that the Residential Class' decrease in BPA exchange credit revenues be offset by an equal reduction in its base revenue requirement. This translates into a \$848,000, or 5.7%, reduction in the Residential base revenue requirement.

33. Schedules 22 and 24 are both tariffed at the same base rate, with Schedule 24, General Service Domestic and Farm), customers receive the BPA exchange credit. PP&L is proposing a 0.8 percent decrease in both class' base revenue requirements in an attempt to mitigate undue billing impacts on Schedule 24 customers. However, Schedule 24 is only about 6 percent of the combined revenue requirement of both classes and any base revenue decrease has to be offset by revenue increases in other class revenue requirements.

34. The Commission finds that the Company has properly designed class revenue requirements to moderate revenue changes in the interim period for which these rate will be in effect. Therefore, the Commission accepts the Company's interim class revenue requirement proposals.

35. The Company's objective in designing rates is to change net energy prices to the smallest extent possible. The Commission finds that the Company's proposed rate design mitigates billing impacts in the interim period, and accepts the rate design methodology contained in the

Company's application. However, the Commission requires that the Company's rate design methodology be updated to reflect the \$929,000 revenue decrease required by this Interim Order.

CONCLUSIONS OF LAW

1. The Applicant, Pacific Power and Light Company, furnishes electric service to Montana consumers, and is a "public utility" under the regulatory jurisdiction of the Montana Public Service Commission. Title 69, Chapter 3, MCA.
2. The Montana Public Service Commission properly exercises jurisdiction over the Applicant's Montana operations pursuant to Title 69, Chapter 3, MCA.
3. Section 69-3-304, MCA, provides in part... "The Commission may, in its discretion, temporarily approve increases or decreases pending a hearing or final decision."
4. The rate levels and spread approved herein are a reasonable means of providing this interim revenue reduction for Pacific Power and Light Company.
5. The Commission finds that the Company's filing in this Docket, as modified by this Interim Order, complies with the Commission's Interim rules. ARM 38.5.501 et seq.

ORDER

THEREFORE THE MONTANA PUBLIC SERVICE COMMISSION ORDERS THAT:

1. Applicant, Pacific Power and Light Company, is hereby ordered to implement on an interim basis decreased rates designed to reduce annual electric revenues by \$929,000.
2. Rate schedules filed shall comport with all Commission determinations set forth in this Interim Order.
3. The Applicant's tariff submittal shall reflect the current BPA Exchange Credit for the qualifying schedules.
4. The interim annual revenue reduction granted in this Interim Order is to be effective for electric service rendered on and after March 16, 1988.
5. Nothing in this Interim Order precludes the Commission from adopting in its Final Order, after reviewing the entire record in this Docket, a revenue requirement different from that contained in this Interim Order.

DONE IN OPEN SESSION at Helena, Montana, this 16th day of March, 1988, by a 5-0 vote.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION

CLYDE JARVIS, Chairman

HOWARD L. ELLIS, Commissioner

TOM MONAHAN, Commissioner

DANNY OBERG, Commissioner

JOHN B. DRISCOLL, Commissioner

ATTEST:

Carol Frasier
Commission Secretary

(SEAL)

NOTE: Any interested party may request that the Commission reconsider this decision. A motion to reconsider must be filed within ten (10) days. See 38.2.4806, ARM.